How Canada Goose (TSX:GOOS) Stock Will Double

Description

Canada Goose Holdings Inc (TSX:GOOS)(NYSE:GOOS) stock was on a tear. During a 12-month period between 2017 and 2018, shares rose by more than 300%.

Then, on May 28, shares plummeted by 35%. The stock now trades at the same price it did 18 months ago, a rare stretch of underperformance for a high-growth company.

For patient investors, this is an incredible opportunity to buy a best-in-breed stock at a more than reasonable price. Here's your chance to double your money.

Fundamentals are back

There are only two ways that a stock goes up in value—either the fundamentals improve or the multiple applied to those fundamentals increases.

For example, if a company earns $1 per share and the stock trades at 10 times profits, the stock price will be $10 per share. If profits double and the multiple stays the same, the stock will hit $20 per share. Alternatively, if the multiple doubles and profits remain the same, the stock price will also reach $20 per share.

The same can happen in reverse, which was the case with Canada Goose.

Since its IPO, Canada Goose stock traded between 50 and 100 times earnings — a huge premium versus the market, which is priced at roughly 20 times earnings.

On May 29, the results were actually pretty encouraging. Sales were up in every region of the world. Gross margins rose and new stores came online.

The issue wasn't growth or profitability, but rather *expectations*.

Whereas the market was pricing in sales and profit growth of 30% or more, management reset expectations a bit lower, to around 20% to 25%. Conditions turned from *really* great to just great, and the market punished the stock heavily for the change.

Currently, Canada Goose trades at just 30 times full-year earnings, its lowest valuation ever. With a reasonable multiple, the stock can now trade more in line with its fundamentals rather than hyped-up growth forecasts.

How to make 100%

Everyone wants to double their investment, and Canada Goose stock gives you a great way to accomplish that.

Over the next five years, analysts expect the company to compound earnings at around 21% per year. That's at the low end of management's guidance, and there's little reason to believe that the company can't hit these conservative targets.

This year, Canada Goose should earn roughly $1.70 per share. If it achieves a 21% growth rate for five years, earnings would top $4.40 per share.

At the current multiple, the stock price would be $132 per share, representing 170% in upside. Even if the multiple comes down to a conservative 22 times earnings, the stock price would still have 100% upside.

In a worst-case scenario, perhaps a global recession, Canada Goose might be able to maintain 10% annual earnings growth. Earnings in this scenario would hit $2.74 per share.

At a depressed valuation of 18 times earnings, the stock price would still be around today's price. Note that in this scenario, global markets likely lost 30% or more in value, so breaking even would be an impressive feat.

It's not often that we get a chance to buy a high-growth stock like Canada Goose at such a low valuation. Just understand that patience is needed, as the upside will be fueled by fundamentals, not speculation.

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